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IMF Reforms: Issues for Congress

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Summary

In December 2010, the Board of Governors of the International Monetary Fund (IMF, the Fund), the institution's highest governing body, agreed to a reform package that addresses two major concerns about the institution: (1) that the size of the IMF's resources has not kept pace with increased economic activity in the global economy; and (2) that the representation of emerging and developing economies at the IMF does not reflect their growing importance in the global economy. Key parts of the reform package cannot go into effect until a number of IMF countries formally approve the reforms. If enacted, these reforms would increase the size of the IMF's core source of funding (IMF "quota"), and increase the representation of emerging market and developing countries at the IMF to reflect more accurately their weight in the global economy.

Implementing the Reform Package, and the Role of Congress

IMF rules do not require formal approval of the reform package by all IMF member countries, but the support of the United States, as the largest shareholder at the institution, is necessary. Although many other IMF member countries have submitted their formal approvals for these reforms, to date, the United States has not formally approved these reforms. Under U.S. law, the Administration cannot do so without specific congressional authorization. Appropriations could also be necessary. In its budget requests for FY2014, FY2015, and FY2016, the Obama Administration has included authorization and appropriation requests for the United States to endorse and ratify the 2010 reform package.

Implications of the Reform Package

Arguments for Reforms: Proponents argue that the reform package is necessary for maintaining the effectiveness and legitimacy of the IMF as the central institution for international macroeconomic stability. The IMF's core source of funding needs to be increased, they argue, in order to give the IMF the resources that it needs to respond effectively to financial crises. They also argue that the under-representation of emerging economies at the IMF is broadly perceived as unfair and reduces the support of several member countries for IMF programs and initiatives.

Arguments against Reforms: Opponents argue that since the IMF has found other ways to supplement its resources during economic crises, the IMF's core funding source does not need to be increased. Opponents are also skeptical that emerging economies support the existing norms and values of international financial institutions, and that these countries may prefer financial and trade strategies that are less aligned with those of the United States.

Potential Impact on the United States: Implementing the reforms would not increase total U.S. financial commitments to the IMF and would have little impact on U.S. representation at the IMF. The reforms would require transferring some U.S. financial commitments from a supplementary fund at the IMF (the "New Arrangements to Borrow," or NAB) to the IMF's core source of funding (quota). This transfer could require appropriations, depending on how the Congressional Budget Office (CBO) scores the transfer of funds. The share of U.S. voting power at the IMF would fall slightly, but the United States would still maintain its unique veto power over major policy decisions.

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Introduction

In December 2010, the Board of Governors of the International Monetary Fund (IMF, the Fund), the institution's highest governing body, agreed to a wide-ranging set of institutional reforms. If enacted, this reform package would increase the institution's core source of funding and expand the representation of dynamic emerging market and developing countries, such as Brazil, China, and Mexico, within the institution. In order for key parts of the reform package to take effect, IMF rules dictate that the reforms must be formally accepted by three-fifths of IMF members (113) representing 85% of the total voting power. Under this formula, although unanimous support is not required, approval by the United States, the IMF's largest stakeholder with 16.75% of the total voting power, is essential (see text box). To date, the United States has not formally approved these reforms.

Congress plays a pivotal role in determining the U.S. position on the current IMF reform agenda. Under U.S. law, specific congressional authorization is required for the United States to consent to change the U.S. quota, or "shares" in the Fund, which determine the United States' total voting power. Furthermore, depending on the budgetary treatment of any new authorized U.S. contributions to the IMF, appropriations would likely also be required.

A majority of IMF member countries have approved these reforms, and with U.S. support, the IMF would meet the thresholds necessary for the reforms to become effective. News reports indicate that inaction by the United States on the reforms created tensions at the IMF-World Bank Annual Meetings in October 2012.[1] Some commentators have suggested that a lack of U.S. action may be frustrating for other IMF member countries, since the U.S. Administration was instrumental in advancing some of the reforms earlier in the process.[2]

This report provides information about the reforms, Congress's role in the reform process, and how the reforms could affect U.S. interests at the IMF. For additional background on the IMF, see CRS Report R42019, *International Monetary Fund: Background and Issues for Congress*, by Martin A. Weiss.

Brief Overview: The IMF

With its near universal membership of 188 countries, the IMF is the central multilateral organization for promoting international macroeconomic stability. The IMF does this in three ways: (1) surveillance of financial and monetary conditions in its member countries and in the global economy; (2) financial assistance to help countries overcome major balance-of-payments problems; and (3) technical assistance and advisory services to member countries.

The primary source of IMF lending resources is the financial contributions or quota subscriptions of its member nations. When a country joins the IMF, it is assigned a quota based on its relative weight in the global economy. The distribution of quota is based on a formula currently incorporating several economic criteria: a member's GDP; openness to trade; volume of current account transactions; and level of official reserves. A country's quota determines the amount of financial resources each member is required to commit to the IMF. It also determines a country's voting power at the Fund and impacts the amount of financial assistance it may receive from the IMF.

There are two main decision-making bodies at the IMF. The Board of Governors is the highest authority in the IMF. All countries are represented on the Board of Governors, usually at the level of the Finance Minister or Central Bank governor. The Board of Governors meets annually at the fall IMF-World Bank meetings and takes major decisions on, for example, amendments to the IMF's founding document (the Articles of Agreements), quota increases and general reviews of quotas, and admittance of new members.

[1] For example, see Lesley Wroughton, "IMF Vote Reform Bogged Down by Delays, Deadlock," *Reuters*, October 8, 2012, http://www.reuters.com/article/2012/10/08/us-imf-governance-idUSBRE8970B120121008.

[2] See CRS Report RL33626, *International Monetary Fund: Reforming Country Representation*, by Martin A. Weiss.

Although the Board of Governors has ultimate authority for running the IMF, it has delegated nearly all its powers to a resident Board of Executive Directors, which handles the operational daily activity of the Fund. The Board has 24 members each representing a single country or a group of countries, and usually meets three or more times a week to oversee and supervise the activities of the IMF, such as the approval of lending programs.

Unlike the United Nations General Assembly, which relies on a one-country, one-vote governance system, the IMF uses a weighted voting system based on a country's quota. The United States, with 16.75% of the total vote, has the largest single vote in the institution. The IMF uses a voting system in which the Executive Directors (EDs) can represent either a single country or several countries grouped in mixed-state constituencies. This constituency system produces a significant power asymmetry among members on the Board. Of the 24 Board members, the 5 countries with the largest quotas (currently the United States, Japan, Germany, the UK, and France) appoint their own executive director. The remaining 16 Executive Directors are elected. Some IMF members, including China, Russia, and Saudi Arabia, have enough votes to elect their own Executive Directors. The other Executive Directors are elected by groups of countries (or "constituencies"). Constituencies are flexible in their membership, and countries have periodically switched constituencies, often to a new group that will allow them to have a bigger vote or leadership role.

The IMF's Articles of Agreement set the various thresholds required for IMF decisions. Unless specified, decisions require a majority of votes cast. Votes requiring a 50% majority of the votes cast include, for example, decisions taken by the Executive Board pertaining to the Fund's daily function (such as approval of specific lending programs). Special majorities of 70% or 85% of total voting power (as compared to the number of votes cast) are required for decisions that fundamentally alter the IMF's operational practices. The 70% threshold applies mainly to decisions taken by the Executive Board on financial matters such as the design of IMF facilities, changes to the interest rate on IMF loans, the budget of the IMF, etc. The 85% threshold applies mainly to Board of Governor decisions on the Fund's governance structure, such as amending the IMF's Articles of Agreement and changing the number of Executive Directors. Because the U.S. vote exceeds 15% of the total voting share, no major actions can go into effect without U.S. consent. The same can be said for other major blocks of IMF member countries, principally European countries.[3]

Proposed Reforms

Motivation for Reform

IMF member countries and staff have pursued reforms to address two problems facing the IMF: (1) core IMF resources have substantially declined as a share of the global economy, while anticipated needs have increased; and (2) the voice and vote of many emerging and developing countries at the IMF increasingly under-represents their current contribution to the global economy, a development which some analysts believe harms support and buy-in for IMF policies and initiatives among critical constituencies.

Adequacy of IMF Resources

Total IMF quota member contributions are approximately $328 billion.[4] However, this figure represents just over 25% of the IMF's available resources. In addition to its quota resources, the IMF maintains standing multilateral borrowing arrangements to temporarily supplement available quota resources and borrowing. The main borrowing arrangement, the New Arrangements to

[3] For example, with a combined vote greater than 15%, Germany, France, and the UK could also block a vote requiring 85% of the voting power, if the countries voted together.

[4] IMF, "IMF Members' Quotas and Voting Power, and IMF Board of Governors," http://www.imf.org/external/np/sec/memdir/members.aspx. The IMF denominates values in special drawing rights (SDRs), a basket of international currencies. In this report, values denominated in SDRs are converted to U.S. dollars using the exchange rate on March 31, 2015: 1 SDR = $1.379490 (Source: IMF). However, dollar amounts should be viewed as approximations, as fluctuations in the exchange rate change the precise value in dollars.

Borrow (NAB), is a set of credit arrangements between the IMF and 38 member countries that can provide about $510 billion of supplementary resources to the IMF. Finally, around 32 countries have established bilateral loan or note purchasing agreements with the IMF that provide an additional $418 billion dollars. The United States has not participated in these new bilateral pledges.[5] Combining both quota and provisional resources, total IMF resources are approximately $1.28 trillion.

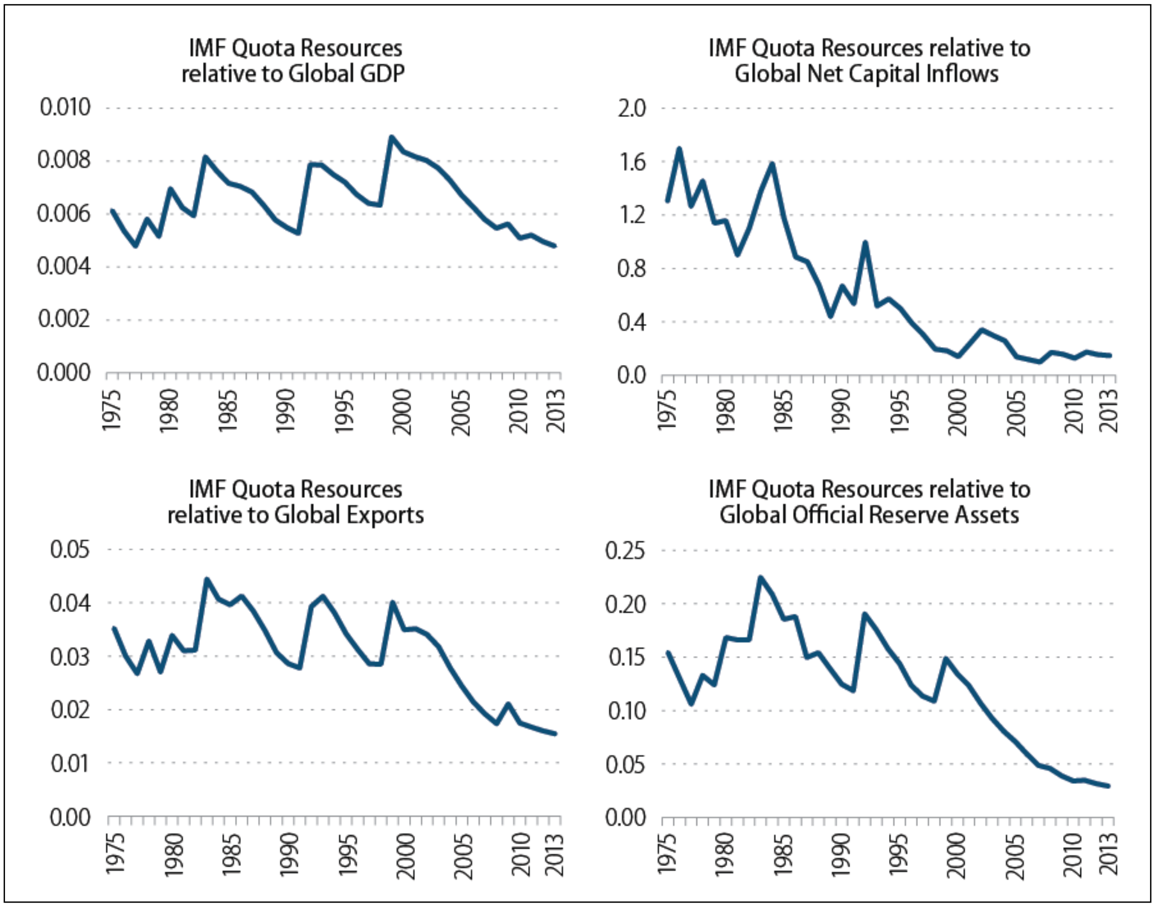
IMF rules call for a review of quotas every five years to ensure that total IMF resources are adequate and that countries' quotas reflect their relative share in the global economy. Despite major growth and change in relative contributions to the global economy, there has not been a major quota increase since 1998. Faster economic growth in than in the rest of the world doubled the share of emerging market and developing countries' contribution to global GDP from 20% in 1996 to 55.5% over 2011-2013, according to the IMF's October 2014 World Economic Outlook. Emerging market countries accounted to 76% of global growth in 2013.

Focus on the adequacy of IMF resources has been on the IMF quota, the financial commitment that countries make when they join the Fund. It has traditionally been the main source of funding that the IMF uses for financial assistance packages. It also determines a member country's voting power at the IMF.[6] **Figure 1** shows how IMF quota resources have changed over time relative to different measures of international economic activity since 1975. In general, IMF quota resources have fallen relative to global GDP, net capital inflows, trade, and reserves in recent decades. Some analysts view this as evidence that IMF quota resources have not kept pace with increased economic integration and that the IMF needs more financial resources in order to remain effective in responding to economic crises, one of its three major functions.

5 IMF, "Where the IMF Gets its Money," October 3, 2014, http://www.imf.org/external/np/exr/facts/finfac.htm.

6 An IMF member's quota share and voting power are not equal since the number of a member's votes includes a set number of so-called "basic votes" provided to all members in addition to one vote for each 100,000 Special Drawing Right of IMF quota.

Figure 1. IMF Quota Relative to International Economic Activity



Source: International Monetary Fund (IMF), *International Financial Statistics*; World Bank, *World Development Indicators*.

Notes: Net capital inflows include portfolio investment and foreign direct investment (FDI). Reserves include holdings of gold.

Some commentators argue that having the large supplemental fund (the NAB) and large bilateral pledges are inadequate substitutes for increasing quota resources. They argue that such large supplemental funds and bilateral borrowings undermine the legitimacy of the IMF as a quota-based institution, where many crucial aspects of the organization, including access to finances and voting power, are influenced by quota. Additionally, they argue that because NAB resources are more difficult to use than quota resources, the IMF's ability to move quickly during crises is weakened.[7] Bilateral commitments may also be temporary, and may not be a reliable source of funds in the future.

[7] Quota resources can be used to fund a new program with a simple majority vote on the Executive Board. In contrast, NAB resources can only be used to fund programs when the NAB has been "activated," for a period of up to 6 months. The NAB can only be activated if a proposal by the IMF Managing Director to activate the NAB is accepted by participants representing 85% of total NAB commitments and is then approved by a simple majority of the Executive Board. Once the NAB has been "activated," NAB resources are combined with quota resources, and use of the resources to fund a new program requires a simple majority vote of the Executive Board.

Representation of Emerging and Developing Countries

In addition to concerns about the adequacy of IMF resources, some IMF members worry that the voice and vote of emerging and developing countries are "under-represented" at the IMF. This under-representation, critics argue, puts into question the evenhanded provision of IMF resources among crisis-afflicted member countries. The ability of emerging economies to influence IMF strategic policies may also be lower, potentially undermining the legitimacy of the IMF in the views of some members.

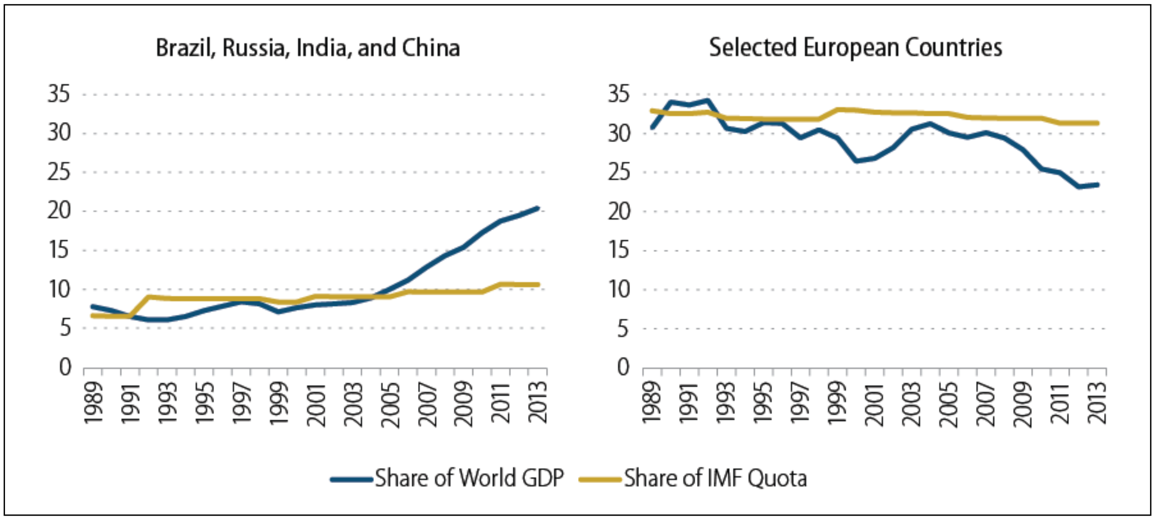
Similar concerns prompted reforms at the IMF in 2006 and 2008; however, these reforms were largely seen as incremental and inadequate steps towards a meaningful solution.[8] Successive U.S. Administrations have generally been supportive of increasing representation of emerging markets at the IMF. A former U.S. Alternate Executive Director to the IMF argues that on governance issues, the United States' aim was to "gain political good will for taking the lead in addressing an unfair structure that undermined the credibility and legitimacy of the IMF—an institution that the United States rightly saw as a positive benefit to itself and the world."[9]

In theory, IMF voting shares are supposed to reflect a country's relative weight in the global economy, but voting shares have proved slow to change and do not fully reflect major changes in recent decades. The increasing economic influence of Brazil, India, Russia, and China (the BRICs), for example, illustrate the changing distribution of global growth and the diffusion of economic power among a much wider group of countries than when the IMF was founded in 1944. **Figure 2** compares the share of GDP and share of IMF quota (which affects IMF voting shares) for the BRICs and a group of advanced European economies. The share of global GDP produced by the BRICs started to increase in the mid-2000s, while the share of global GDP produced by the group of advanced European economies has fallen in recent decades. However, IMF quota share, and hence voting power, for both sets of countries has remained relatively flat.

[8] For more on previous efforts to increase the vote and participation of emerging and developing countries, see CRS Report RL33626, *International Monetary Fund: Reforming Country Representation*, by Martin A. Weiss.

[9] Douglas Rediker, "Losing at the IMF," *Foreign Policy*, October 10, 2012, http://www.foreignpolicy.com/articles/2012/10/10/losing_at_the_imf.

Figure 2. IMF Quota and Share of GDP: Selected Emerging Markets and European Countries Since 1989



Source: IMF, *International Financial Statistics*; World Bank, *World Development Indicators*.

Notes: Countries selected for illustrative purposes only; other countries or groupings may be considered under- or over-represented at the IMF. Selected European countries include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

Concerns about dominance of European views and interests on the IMF Executive Board have also been expressed.[10] The IMF Executive Board, which meets several times a week, has 24 members (Executive Directors), and is normally chaired by the IMF Managing Director (currently Christine Lagarde of France). **Table 1** shows the nationality of Executive Directors of the Executive Board in September 2012.[11] Eight of the 24 Executive Directors were from advanced European economies, and an additional two Executive Directors represented groups of countries that included at least one advanced European economy. Some argue that this is an overabundance of European Executive Directors, which critics argue limits the ability of non-European Executive Directors to represent adequately their constituencies' interests and for IMF members to hold their Executive Director accountable. They have suggested that European voices on the Board should be consolidated, allowing for more seats on the Board to be controlled by emerging and developing countries. Several of the Executive Directors represent large constituencies of African and South American countries, many of which are among the IMF's poorest members who depend on the IMF for lending.

[10] "The Case for IMF Quota Reform," *Council on Foreign Relations Expert Roundup*, October 11, 2012, http://www.cfr.org/imf/case-imf-quota-reform/p29248.

[11] A new Executive Board formed in November 2012, which is discussed in greater detail later in the report (see "Status of Reform").

Table 1. Nationality of IMF Executive Directors

September 2012

Executive Directors from Advanced European Economies	Executive Directors Representing Advanced European Economies	Other Executive Directors
1. Germany*	1. Canada (constituency includes Ireland)[1]	1. United States*
2. France*	2. Mexico (constituency includes Spain)[1]	2. Japan*
3. UK*		3. Singapore[1]
4. Belgium[1]		4. China
5. Netherlands[1]		5. Australia[1]
6. Italy[1]		6. Lesotho[1]
7. Denmark[1]		7. Egypt[1]
8. Switzerland[1]		8. India[1]
		9. Brazil[1]
		10. Saudi Arabia
		11. Russia
		12. Iran[1]
		13. Argentina[1]
		14. Togo[1]

Source: IMF, "IMF Executive Directors and Voting Powers," September 2012, http://www.imf.org/external/np/sec/memdir/eds.aspx.

Notes: * Appointed Executive Directors; all other Executive Directors are elected. [1] Executive Directors representing groups of countries (constituencies). Executive Directors do not have equal voting shares. A new Executive Board was formed in November 2012, with major changes. See the discussion below in "Status of Reform" for more details.

The 2010 Reform Package

In December 2010, the IMF's Board of Governors approved a package of reforms to address these concerns.[12] Key components of the reform package include the following:[13]

- **Doubling IMF quota and rollback of the NAB:** The reform package calls for a doubling of IMF quota, and a corresponding rollback of the NAB. Although IMF

[12] IMF, "IMF Board of Governors Approves Major Quota and Governance Reforms," December 16, 2010, http://www.imf.org/external/np/sec/pr/2010/pr10477.htm; and IMF, "Selected Decisions and Selected Documents of the IMF, Thirty-Fifth Issue – Fourteenth General Review of Quotas and Reform of the Executive Board," http://www.imf.org/external/pubs/ft/sd/index.asp?decision=66-2.

[13] This report focuses on components of the reform package that require specific congressional action to implement, are the most proximate, and/or have been the most controversial. Other components of the reform package relating to quotas include a comprehensive review of the quota formula by January 2013 and another general review of quotas by January 2014, which would further enhance the voice of emerging markets at the IMF. Other components of the reform package relating to the Executive Board include allowing more Executive Directors to appoint a second alternate Executive Director; maintaining the current 24 seats on the Executive Board (instead of the 20-seat Board originally outlined in the IMF Articles, subject to increase or decrease by the Board of Governors); and reviewing the composition of the Executive Board every eight years.

quota has been periodically increased before, if adopted, this would be the largest proportional quota increase in the history of the IMF.[14]

- **Shifting IMF quota to emerging economies:** The reform package also calls for a 6% shift in quota share to emerging markets, which would increase their voting power at the IMF, as well as their relative financial commitments to the institution. If implemented, the negotiated changes in quota shares would result in China becoming the third-largest shareholder at the IMF, and India and Brazil would also join China and Russia among the 10 largest shareholders.[15] The United States' quota share would fall slightly, but the U.S. quota would still be sufficient to ensure it had more than the 15% of the total voting power needed to veto major IMF policy decisions. See **Table A-1** for more details about how IMF quota shares would change for major economies.
- **Creating an all-elected IMF Executive Board:** Rather than continuing the practice of having the five largest shareholders at the IMF appoint Executive Directors to the Board, the proposed reform would make all Executive Directors on the Executive Board elected.[16] This reform could pave the way for future consolidation of European representation on the Executive Board.[17]
- **Reducing representation of advanced European economies on the Executive Board:** Ten seats on the Executive Board represent advanced European economies. The reform proposal reflects a commitment by the membership to reduce the number of Executive Directors representing advanced European economies by two, so emerging and developing countries have more representation on the Board.

Potential Impact on the United States

If implemented, the quota reform would result in a shift in the composition of U.S. financial commitments to the IMF as the NAB is reduced and the quota is increased, but would not increase total U.S. commitments to the IMF.[18] This shift would likely require appropriations for the entire amount of the increase but the net effect on the budget would depend on how much of the funds need to be shifted and whether there are any changes to the budgetary treatment of U.S. IMF contributions (see discussion in the "The Role of Congress" below). Because the United States arguably has more control over when NAB funds are used compared to quota resources, the shift could entail some loss of U.S. control over the resources.[19] However, quota commitments are still generally considered very safe, and the United States has never lost money on its quota commitments (and it earns a small amount of interest on these commitments).

[14] The second-largest proportional increase in IMF quota was by 60.7% in 1958-1959. For all IMF quota increases, see "General Quota Reviews" at IMF, "IMF Quotas," http://www.imf.org/external/np/exr/facts/quotas.htm.

[15] IMF, "IMF Quotas," http://www.imf.org/external/np/exr/facts/quotas.htm.

[16] The United States would still retain its single seat on the Executive Board.

[17] Countries currently form groups voluntarily, typically on the basis of geographical or historical affinity. A few countries—China, Russia, and Saudi Arabia—have enough votes to elect their own Executive Directors. For the composition of the current Executive Board, see http://www.imf.org/external/np/sec/memdir/eds.aspx.

[18] Currently, the United States has committed about $65 billion to IMF quota and about $106 billion to the NAB.

[19] NAB resources can only be used to fund programs when the NAB has been "activated." The United States can veto activation of the NAB. By contrast, a simple majority of the Executive Board can approve using quota resources to fund a program; the United States cannot veto use of quota resources.

With the realignment of IMF quota shares towards emerging markets, the U.S. voting share would fall from 17.69% to 17.40%.[20] This change does not have a meaningful impact and would maintain the United States' unique veto power over major policy decisions at the IMF, while freeing up quota share to be shifted to emerging-market countries. The United States is actually under-represented at the IMF, with a quota share (17.69%) smaller than its share of global GDP (about 22.4% in 2013). The United States has allowed its quota share to fall over the years, partly to facilitate realignment of IMF quota shares to reflect the increasing weight of dynamic emerging market economies in the global economy, while maintaining enough voting power to be able to veto major policy decisions at the IMF that require an 85% majority.

Since the IMF was founded, the United States has appointed its own representative to the Executive Board. Under the reform, large shareholders like the United States could still represent a constituency of one country (themselves), but other countries could in theory elect to join a large member's constituency, subject to the rules of the Fund, which aim to maintain constituencies balanced in terms of voting power.

Reducing the number of seats on the Executive Board representing advanced European economies will not impact U.S. representation on the Board.

Arguments against Reforms

Opponents of the reform argue that the IMF has sufficient resources to address financial crises, through the expansion of the NAB and through the IMF's ability to coordinate bilateral contributions during periods of intense market pressure. They also argue that the stricter process for accessing NAB funds, relative to IMF quota, is appropriate for protecting taxpayer commitments to the IMF. Moreover, some analysts reject the notion that the IMF needs more funds to combat the Eurozone crisis, because Europe has the financial resources it needs to respond to the crisis. They argue that if the IMF has any role to play in the Eurozone crisis, it should be through non-financing functions, such as through technical assistance and surveillance of economic policies and conditions.

Others are skeptical that emerging economies support the existing norms and values of international financial institutions, and question whether they would be "responsible stakeholders." Emerging countries may also have significantly different views on economic policies, such as on free markets and state-led development. There may be concerns among critics of the reform package that increasing the voice and participation of emerging markets at the IMF could result in the support of economic policies that are less aligned with the preferred policies of advanced economies.

Status of Reform

Although the IMF Board of Governors approved the reform package in 2010, some of the key parts of the package require additional action to take effect. To move to an all-elected Executive Board, three-fifths of IMF member countries representing 85% of the voting share need to formally approve an amendment to the IMF's Articles of Agreement. For the quota reform (doubling quota and shifting of quota to emerging markets) to take effect, the amendment to the Articles providing for an all-elected Executive Board must be approved, and IMF members representing at least 70% of total quotas consent to the quota changes.

[20] IMF, "Executive Board Approves Major Overhaul of Quotas and Governance," November 5, 2012, http://www.imf.org/external/np/sec/pr/2010/pr10418.htm.

With the largest voting power at the IMF (16.75%), the reforms cannot go through without U.S. support, even though a majority of IMF member countries have approved them. **Table 2** summarizes the approval process for the Board amendment and the quota reform, and the number of formal approvals received to date by the IMF.

Table 2. IMF Quota and Board Reforms: Progress to Date

Reform	Threshold of Approvals/Consents Needed	Approvals as of March 4, 2015	United States submitted formal approval to IMF?
Board Reform: Amend the IMF Articles of Agreement to create an all-elected Executive Board	Three-fifths of IMF members (113 countries out of the total 188 country membership) representing 85% of the total voting power must approve amendment	146 members representing 77.07% of the total voting power	No
Quota: Double IMF quota, and shift voting power to emerging economies	Members representing 70% of total quotas must consent to quota increase, and the above proposed board reform amendment must have entered into force	163 members representing 80.17% of the quota share Board Reform Amendment has not yet entered into force	No

Source: IMF, "Proposed Amendment on the Reform of the IMF Executive Board and Fourteenth General Review of Quotas – Status of Acceptances and Consents," February 18, 2015.

By contrast, reducing the seats held by advanced European economies on the IMF Executive Board is a more informal process. Countries voluntarily decide how to group themselves on the Executive Board, and the consolidation will require coordination and proactive action among IMF members. The initial reform package included the pledge to reduce the representation of advanced European economies on the Executive Board by two seats following the implementation of the other reforms.[21] However, the process for obtaining the required acceptances for the Board amendment and consents to the quota reform has taken longer than expected, and steps towards Board realignment were taken in November 2012. In particular, the Belgium and Netherlands seats merged.[22] Austria is currently serving as an Executive Director for the seat vacated by Belgium, but reportedly will rotate its chair with Turkey, the Czech Republic, and Hungary.[23] It has also been reported that the grouping of Nordic countries will permit all the Baltic members of the group to rotate serving as the Executive Director, and that the Switzerland Executive Director will rotate with Poland in a few years.[24]

[21] IMF, "Selected Decisions and Selected Documents of the IMF, Thirty-Fifth Issue – Fourteenth General Review of Quotas and Reform of the Executive Board," http://www.imf.org/external/pubs/ft/sd/index.asp?decision=66-2.

[22] For details about the Executive Board that formed on November 1, 2012, see http://www.imf.org/external/np/sec/memdir/eds.aspx.

[23] Sandrine Rastello, "IMF Board Sees Biggest Power Shift Reshuffle in Two Decades," *Bloomberg*, October 14, 2012, http://www.businessweek.com/news/2012-10-14/imf-board-sees-biggest-power-shift-reshuffle-in-two-decades.

[24] Ibid.

The Role of Congress

Congressional support is necessary for the United States to consent to the quota reform and accept the amendment to create an all-elected Executive Board. The Bretton Woods Act, which authorizes U.S. participation in the IMF, states that, among other things, the Administration cannot consent to a change in U.S. quota at the IMF or accept an amendment to the IMF Articles of Agreement, unless Congress authorizes such action by law.[25] Therefore, congressional action will determine the outcome of the U.S. position and, by extension, the success of the reform effort.

In addition to the congressional role in authorizing the reforms, appropriations will likely be necessary for the quota reform. For the United States, the reform with entail a nearly doubling of the U.S. quota at the IMF and a corresponding rollback of U.S. financial participation in the NAB. Total U.S. financial commitment to the IMF would not change. Any appropriations needed for the transfer would depend on the scoring by the Congressional Budget Office (CBO). This determination would include factors such as whether U.S. commitments to the NAB are more, less, or equally risky than U.S. commitments to quota resources.

The last time the United States increased its financial commitments to the IMF, in 2009, there was a debate over their budgetary treatment, which resulted in a change in the budgetary process that had been in place since 1980.[26] Since 1980, contributions to the IMF had been handled as an exchange of assets, which required increases in budget authority but no outlays. In 2009, it was decided that the new U.S. commitments to the IMF would be treated as lines of credit. Congress had to appropriate funds as a potential loan-loss reserve, consistent with the treatment of federal loans under the Federal Credit Reform Act (FCRA) of 1990 (P.L. 101-508), but also adjusted for market risk. The Congressional Budget Office (CBO) determined that $5 billion needed to be appropriated for the approximately $108 billion in new commitments to the IMF (P.L. 111-32).

Congressional Debate and Options for Congress

Some analysts are also skeptical as to the interest among Members of Congress to change the composition of U.S. commitments to the IMF. In the 112th Congress, continuing concerns about the use of IMF resources in the Eurozone debt crisis contributed to the introduction of legislation in the House and Senate (H.R. 2313, S.Amdt. 501, and S. 1276) that would rescind U.S. financial commitments to the IMF approved by Congress in 2009, primarily through to the NAB. Similar language was also included in a House draft of the FY2012 State and Foreign Operations Appropriations bill.[27]

Following the December 2010 international agreement on IMF reform, the Administration sought for several years to have Congress introduce funding legislation but did not include a formal budget request. In its budget requests for FY2014, FY2015, and FY2016, the Obama Administration has included authorization and appropriation requests for the United States to endorse and ratify the 2010 reform package. During the spring of 2014, during debate on a

[25] 22 U.S.C. 286c.

[26] For more on the budgetary treatment of U.S. contributions to the IMF, see the Appendix in CRS Report R40578, *The Global Financial Crisis: Increasing IMF Resources and the Role of Congress*, by Jonathan E. Sanford and Martin A. Weiss. For more on the 2009 debate, see CBO, "Budget Implications of U.S. Contributions to the International Monetary Fund," CBO Blog post, May 19, 2009, http://www.cbo.gov/publication/24901.

[27] A copy of the draft bill is available on the House Appropriations website, http://appropriations.house.gov/UploadedFiles/FY12-SFOPS-07-25_xml.pdf.

Ukraine-assistance package, IMF funding legislation was included in the Senate version of the bill but was stripped out prior to passage.

Congress has at least four options regarding the reform package. The authorizing committees for the IMF are the Senate Committee on Foreign Relations and the House Committee on Financial Services.

Option 1: Do not authorize U.S. participation in the reforms

Congress could choose not to authorize U.S. support for the reform package. Without U.S. approval, the reforms could not take effect and the current IMF funding and governance structures would not change. U.S. financial commitments at the NAB would not be transferred to IMF quota, emerging markets would not gain a greater voice at the IMF, and the United States would continue to appoint its own Executive Director. The United States would, however, face strong backlash from other IMF members for "blocking" reforms that have been approved by a majority of IMF member countries. Congress could urge the Administration to use its "voice and vote" at the IMF to pursue and negotiate a different set of reforms.

Option 2: Authorize the Administration to accept both reforms

Congress could authorize both parts of the reform package: the amendment to the Articles of Agreement providing for an all-elected Board and the quota reform, and pass whatever appropriations may be needed for the quota reform. If the United States supports the reform package, the increase in the U.S. quota would be counterbalanced by an equivalent reduction of U.S. participation in the NAB, and the United States would start electing its representative to the IMF, rather than appointing its representative. Emerging markets would gain greater voting power at the IMF, and increase their relative financial commitments to the IMF. The legislation could include a reporting requirement, such as having the Administration report to Congress on how increased IMF quota resources are being used, or how increased representation of emerging markets at the IMF is shaping IMF policies.

Option 3: Authorize U.S. support for the Board reform, but not the quota reform

Congress could authorize the Administration to accept an amendment to the Articles of Agreement providing for an all-elected Board, but not authorize U.S. participation in the quota increase. If the United States supports the Board amendment, the Executive Board would become an all-elected body and the U.S. representative would be elected, not appointed. The quota reform would also take effect, even without U.S. consent. Quota subscriptions by others could then proceed, and the U.S. quota share would decline as others implement their quota increases. Given the size of the quota increase (doubling), the U.S. quota share would be expected to fall below 15%. This would mean that the U.S. financial commitments to quota would fall relative to other countries, but that the United States would also lose its veto power in supermajority decisions requiring 85% of the voting share. For this reason, it is extremely unlikely that any Administration would consent to the Board reform amendment without the quota increase.

Option 4: Authorize U.S. support for the quota reform, but not the Board reform

Congress could authorize U.S. participation in the quota increase but not amend the Articles of Agreement to create an all-elected Board. Because quota reform is conditional on the completion of the Board reform, neither of the reforms would take effect.

Concluding Remarks

In response to concerns among IMF member nations that the institution was underfunded given the potential global needs for crisis funding and that the developing and emerging economies were underrepresented, member nations agreed in December 2010 to an ambitious package of reforms. If completed, these reforms would double the IMF's quota resources and allow emerging and developing countries to own a larger share of the institution and take on more responsibility for the Fund's governance.

In order for key parts of the reform package to take effect, IMF rules dictate that the reforms must be formally accepted by three-fifths of IMF members (113 members out of 188 members) representing 85% of the total voting power. Under this formula, although unanimous support is not required, approval by the United States, the IMF's largest stakeholder, is essential. To date, no action has been taken by Congress on the necessary legislation.

In October 2014, IMF member countries agreed that if the 2010 reform package was not completed by the end of the 2014, other options for advancing quota and governance reform should be considered. Following the absence of any IMF authorizations or appropriations in the FY2015 omnibus legislation, IMF Managing Director Christine Lagarde requested that Fund staff prepare alternative reform options that could be enacted without U.S. authorizations or appropriations.

Since the beginning of 2015, two interim options that are reportedly being discussed are (1) "de-linking" the IMF quota increase and governance reform proposals and (2) ad hoc quota increases, that would raise the quota and voting rights of a select group of under-represented countries. Delinking IMF quota and governance is highly unlikely. If the United States allows the IMF quota increase to proceed without participating, the U.S. quota share would be expected to fall below 15%, and the United States would forfeit its veto power in supermajority decisions requiring 85% of the voting share. For this reason, it is extremely unlikely that any Administration would consent to the Board reform amendment without the quota increase. Most experts believe that an ad hoc increase will be the likely interim measure pursued by IMF membership.

Appendix. Current and Proposed IMF Quota Shares: Top Shareholders

Table A-1. Top IMF Shareholders: Current and Proposed

	Current Largest IMF Quota Shareholders		**Proposed Largest IMF Quota Shareholders**		**Largest Economies**	
	Country	IMF Quota Share	Country	IMF Quota Share	Country	% of 2013 Global GDP
1	United States	17.69%	United States	17.40%	United States	22.4%
2	Japan	6.56	Japan	6.46	China	12.7
3	Germany	6.12	China	6.39	Japan	6.6
4	France	4.51	Germany	5.58	Germany	4.9
5	UK	4.51	France	4.23	France	3.8
6	China	4.00	UK	4.23	United Kingdom	3.4
7	Italy	3.31	Italy	3.16	Brazil	3.0
8	Saudi Arabia	2.93	India	2.75	Russia	2.8
9	Canada	2.67	Russia	2.71	Italy	2.8
10	Russia	2.50	Brazil	2.32	India	2.5
11	India	2.44	Canada	2.31	Canada	2.4
12	Netherlands	2.17	Saudi Arabia	2.10	Australia	2.0
13	Belgium	1.93	Spain	2.00	Spain	1.82
14	Brazil	1.79	Mexico	1.87	Korea	1.75
15	Spain	1.69	Netherlands	1.83	Mexico	1.69
16	Mexico	1.52	Korea	1.80	Indonesia	1.17
17	Switzerland	1.45	Australia	1.38	Netherlands	1.14
18	South Korea	1.41	Belgium	1.34	Turkey	1.10
19	Australia	1.36	Switzerland	1.21	Saudi Arabia	1.00
20	Venezuela	1.12	Turkey	0.98	Switzerland	0.87

Source: Current IMF quota shares from IMF, "IMF Members' Quota and Voting Power, and IMF Board of Governors," http://www.imf.org/external/np/sec/memdir/members.aspx; IMF quota share if reforms are implemented from IMF, "Updated IMF Quota Data—August 2012," August 8, 2012, Table A4: Distribution of Quotas and Calculated Quotas—By Member, http://www.imf.org/external/np/fin/quotas/2012/0812.htm; Ranking by GDP from IMF, *World Economic Outlook*, October 2012.

Notes: GDP does not adjust for differences in price levels across countries (purchasing power parity, PPP). Using GDP adjusted for PPP would produce a different ranking, and countries disagree about which measure is more appropriate. This list is for illustrative purposes only.

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